

ELLIS LAW HORNE

John J. Pringle, Jr.
Direct dial: 803/343-1270
jpringle@ellislawhorne.com

April 20, 2005

VIA ELECTRONIC MAIL AND HAND-DELIVERY

Charles L.A. Terreni, Executive Director
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia SC 29210

RECEIVED
2005 APR 20 PM 12:33
SC PUBLIC SERVICE
COMMISSION

RE: Application of Lake Wylie Community Utilities, Inc. for Adjustment in
Rates and Charges for Water and Sewer Services
Docket No. 2004-353, *Our File No. 751-10186*

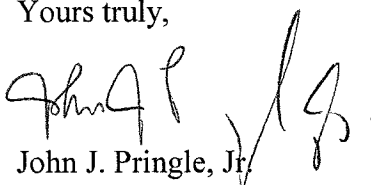
Dear Mr. Terreni:

Enclosed for filing please find an original and twenty-five (25) copies of the
Rebuttal Testimony of John C. Malpeli and the **Rebuttal Testimony of James Yokum, Jr.**
for filing on behalf of Lake Wylie Community Utilities, Inc. in the above-referenced docket.

Please stamp "received" the additional copy of this letter, and return with the
bearer of these documents.

With kind regards, I am

Yours truly,


John J. Pringle, Jr.

jjp/cr

Attachments

cc: Office of Regulatory Staff (via electronic and first-class mail service)
Mr. John Malpeli (via first-class mail service)
All parties of record (via first-class mail service)

RECEIVED
205 APR 20 PM 12:33
SC PUBLIC SERVICE
COMMISSION

Application of Lake Wylie Community Utilities, Inc. for Adjustment in Rates And Charges for Water and Sewer Services

)
)
)
)
)
)
)
)

Carol Roof

April 20, 2005
Columbia, South Carolina

RECEIVED
JMS APR 20 PM 12:33
SC POLICE OFFICE
COMMUNICATION

Application of Lake Wylie Community Utilities, Inc. for Adjustment in Rates And Charges for Water and Sewer Services

)
)
)
) **REBUTTAL TESTIMONY**
) **OF JOHN C. MALPELI**
)
)
)

2 A. My name is John C. Malpeli and my business address is 1295 State Line Road,
3 Clover SC 29710.

6 A. I am an owner of Lake Wylie Community Utilities, Inc. ("Lake Wylie").

9 A. Yes. I previously filed Direct Testimony in support of Lake Wylie's request to this
10 Commission for an adjustment of its water and wastewater rates and charges.

13 A. The purpose of my rebuttal testimony is to respond briefly to the Direct Testimony filed

1 by Dawn Hipp and Roy Barnette on behalf of the Office of Regulatory Staff. In
2 addition, I would like to respond to the testimony provided by the residents of Lake
3 Wylie at the Night Hearing held in this Docket.

4
5 **Q: Have you reviewed Dawn Hipp's Exhibits DWH-6, DMH-7 and DMH-8?**

6 A: Yes, I have. These exhibits show information regarding several alternative rate
7 increases, the total amounts of those increases, the percent increase in rates associated
8 with those rate increases, and the operating margins that would result from these rate
9 increases. As outlined in Ms. Hipp's Direct Testimony on Page 10, the ORS has
10 provided a "suggested operating margin range of 10-15%" because that range strikes "a
11 more prudent balance between the consumer's need for affordable, quality services and
12 LWCU's financial health."

13
14 **Q: Can you shed some additional light on "LWCU's financial health"?**

15 A: Yes. As I demonstrated in my direct testimony, Lake Wylie has operated at a significant
16 loss for many years due to a steady increase in the expenses associated with operating
17 the water and wastewater systems. As further demonstration of these significant losses,
18 attached as **Exhibit One** is a document summarizing Lake Wylie's aggregate revenue
19 and expense information from 1994-2003 (excluding 1999) as reported to the
20 Commission on our annual report forms and as set out in the testimony of ORS
21 witnesses. As shown on that document, Lake Wylie has sustained significant losses for
22 every year during that time span. In fact, our losses were actually higher than our

1 revenues in 2000, 2002, and 2003, resulting in operating margins of over negative
2 100%.

3
4 **Q: In view of Lake Wylie's financial history and condition, do you have any**
5 **comments on the ORS' "suggested operating margin range"?**

6 A: I don't think that this range gives the Commission the proper context for addressing
7 what operating margin is appropriate for Lake Wylie. Recall that the utility has never
8 had its rates adjusted following the initial rate establishment in 1982. Further, as I
9 discuss above, Lake Wylie has incurred substantial losses during each year of its recent
10 operations. An operating margin in the range suggested by Ms. Hipp does not fully take
11 these facts into consideration. Thus, even a 15% operating margin, which according to
12 Ms. Hipp's testimony produces an additional \$109,184 in revenues for Lake Wylie,
13 would only begin to address the historical losses suffered by the Company.

14
15 **Q: What other factors not considered in the "suggested operating margin range"**
16 **should the Commission consider?**

17 A: During this rate case, I have had to repair and replace a great deal of the equipment
18 associated with one of the wells in the system. The pump on my #2 well came apart
19 causing the submersible motor to burn up. Both pump and motor had to be replaced
20 along with 120 feet of 4-inch galvanized pipe. Also, my #1 well had the relief and
21 check valve and the 440-volt main breaker fail, adding further to our expenses. As the
22 invoices attached as **Exhibit Two** demonstrate, these necessary repairs to the well cost a

1 total of \$15,107.14. That amount alone would account for almost all of the \$16,412.50
2 that Lake Wylie would earn with an operating margin of 10%, (based on Ms. Hipp's
3 revenue requirement of \$164,125 as set out in Exhibit DMH-8). Further, Lake Wylie's
4 expenses for its sewer operators are increasing dramatically: These monthly expenses
5 doubled in August of 2004. Although our customers may not be aware of these
6 expenses, well repairs and operator fees represent the types of expenses (among others)
7 incurred by the Company on a regular and ongoing basis. These factors need to be
8 taken into consideration by the Commission when setting an appropriate operating
9 margin.

10
11 **Q: Please comment on ORS witness Barnette's Adjustment #14 related to the**
12 **amortization of rate case expenses.**

13 **A:** Mr. Barnette, at Pages 10-11 of his testimony, proposes to amortize rate case expenses
14 over a five-year period, based upon the fact that the last rate proceeding for these
15 systems "was 22 years ago." By contrast, Lake Wylie's Application proposed an
16 amortization period of three years. As set forth above, the significant expenses Lake
17 Wylie has incurred and will continue to incur with respect to its operations will likely
18 force the Company to seek further rate relief within three years, if not sooner. Thus, the
19 three-year amortization period proposed by Lake Wylie for these rate case expenses is
20 particularly appropriate.

21
22 **Q: Do you have a response to those Lake Wylie residents who appeared at the night**

1 **hearing in this matter and questioned the amount of the proposed increase in**
2 **rates?**

3 A: Yes. While I understand the concerns of customers regarding the size of the proposed
4 increases in rates, I believe the Company's expenses, as set out in the Application and
5 my testimony, speak for themselves. As demonstrated by my Direct Testimony and this
6 testimony, the costs of operating these systems have increased far beyond the revenue
7 the utility has been allowed to earn, and these expenses are only going to continue to
8 increase. Lake Wylie simply cannot continue to operate without substantial rate relief.

9
10 **Q: Please comment on the “appropriate” rate increases as suggested by protestants at**
11 **the Night Hearing.**

12 A: Several protestants discussed a percentage rate increase that they considered appropriate
13 for Lake Wylie, using “cost of living” increases as an analogy. As the figures in the
14 Application and in my testimonies demonstrate, expenses for Lake Wylie have simply
15 increased at rates higher than inflation or other “cost of living” measures.

16
17 **Q: What is your response to residents’ comments regarding the taste, odor, and**
18 **mineral content of the water in the Lake Wylie system?**

19 A: As our Application demonstrates, the water Lake Wylie provides meets all applicable
20 drinking water standards as administered by SCDHEC. The filtering devices and
21 systems suggested by residents might indeed address the mineral “hardness” of the
22 water. However, any such enhancements to the system would further add to the high

1 costs of operating the systems. I always stand ready to work with my customers to
2 improve the water and wastewater services Lake Wylie provides, but we cannot take
3 steps that would increase expenses to the point where the financial viability of Lake
4 Wylie is threatened.

5
6 **Q. Does this conclude your testimony?**

7 **A.** Yes it does.

Exhibit One

**LAKE WYLIE WATER AND WASTEWATER FINANCIAL INFORMATION DRAWN FROM ANNUAL REPORTS ON FILE WITH THE SOUTH
CAROLINA PUBLIC SERVICE COMMISSION AND THE TESTIMONY OF THE ORS**

Year	Total Revenue	Total Expenses	Net Income	Operating Margin	
1994	68,623.00	96,615.00	-27,992.00	-40.79%	
1995	75,380.00	108,933.00	-33,553.00	-44.51%	
1996	79,964.00	110,266.00	-30,302.00	-37.89%	
1997	82,811.00	122,640.00	-39,829.00	-48.10%	
1998	83,806.50	151,878.63	-68,072.13	-81.23%	
2000	83,252.75	167,961.96	-84,709.21	-101.75%	
2001	79,853.75	159,102.82	-79,249.07	-99.24%	
2002	76,193.50	154,642.73	-78,449.23	-102.96%	
2003*	68,240.00	143,061.00	-74,821.00	-109.64%	
		Total	-516,976.64		

* From Audit Exhibit A to the Report of the Audit Department, Office of Regulatory Staff

Exhibit Two

**McCALL BROTHERS, INC.**P.O. BOX 668710
CHARLOTTE, N.C. 28266-87106700 BROOKSHIRE BLVD.
CHARLOTTE, N.C. 28216
PH. 704-399-1506
FAX 704-398-2605**INVOICE**
NO. 22077

MOBILE

1

B
I LAKE WYLIE MOBILE HOME PARK
L 1295 STATE LINE ROAD
L CLOVER SC 29710S LAKE WYLIE MOBILE HOME PARK
I 1295 STATE LINE ROAD
T CLOVER SC 29710
ET
O

INVOICE DATE	INVOICE NO.	CUSTOMER NO.	PAYMENT TERMS	CUSTOMER ORDER NO.
03/31/05	22077	F01062	NET 10	

TICKET #	QTY	UNIT MEAS DESCRIPTION	UNIT PRICE	EXTENDED PRICE
----------	-----	-----------------------	------------	----------------

W/O # - A50316014

RELIEF VALVE POPPING OFF, CHECK SYSTEM
03/17/05 TRAVEL TO SITE AND CHECKED SYSTEM. CHECKED POWER SUPPLY, CONDITION OF MOTOR AND LEADS, AND STARTER. CHECKED MOTOR AMPERAGE AND ROTATION, UNIT CHECKS GOOD PUMPING THROUGH THE BLOW OFF VALVE. OPENED VALVE TO THE SYSTEM AND CLOSED THE BLOW OFF VALVE, RELIEF VALVE POPPED OFF. WITH BLOW OFF VALVE OPEN THE RELIEF VALVE HOLDS. INSTALLED NEW PRESSURE RELIEF VALVE AND RESTARTED THE PUMP, VALVE POPPED OFF AGAIN. TOOK FLANGE CHECK VALVE APART AND FOUND SEAT AND GATE WASHED OUT ENOUGH FOR THE DISC TO HANG UP IN THE SEAT. REPLACED CHECK VALVE AND RESTARTED, RELIEF VALVE STILL POPPED OFF. INSTALLED GAUGES ON LINE TO CHECK PRESSURES, NEW VALVE MUST BE BAD. WILL TAKE NEW AND OLD VALVES TO SUPPLIER TO HAVE CHECKED OUT, AND POSSIBLE REPAIR COST.
03/30/05 TRAVEL TO SITE, INSTALLED NEW STYLE RELIEF VALVE AND RESTARTED PUMP. NEW RELIEF VALVE HOLDING AS IT SHOULD. OLD RELIEF VALVE CANNOT BE REPAIRED, WILL HAVE CHECK VALVE CHECKED TO SEE IF IT CAN BE REPAIRED.

A50316014	1.00	LS MATERIALS	299.65	299.65
	8.00	HR COMMERCIAL SVC-LBR-REG/2 MEN	90.00	720.00
	1.00	LS MATERIALS	458.10	458.10
	4.00	HR COMMERCIAL SVC-LBR-REG/2 MEN	90.00	360.00
		SALES TAX		45.47

Finance Charges Accrue At 1 1/2% Monthly.
this account goes to collection said party is
responsible for court cost and collection fees.

GROSS	TAX	NET AMOUNT
1,837.75	45.47	1,883.22

M 4-12-05 #121

**McCALL BROTHERS, INC.**P.O. BOX 568710
CHARLOTTE, N.C. 28266-87106700 BROOKSHIRE BLVD.
CHARLOTTE, N.C. 28216
PH. 704-399-1506
FAX 704-398-2605**INVOICE**
NO. 22093

1

PAGE

B
I LAKE WYLIE MOBILE HOME PARK
L 1295 STATE LINE ROAD
L CLOVER SC 29710

S LAKE WYLIE MOBILE HOME PARK
I 1295 STATE LINE ROAD
T CLOVER SC 29710
E

T
O

INVOICE DATE	INVOICE NO.	CUSTOMER NO.	PAYMENT TERMS	CUSTOMER ORDER NO.
04/07/05	22093	F01062	NET 10	

TICKET #	QTY	UNIT MEAS DESCRIPTION	UNIT PRICE	EXTENDED PRICE
----------	-----	-----------------------	------------	----------------

W/O # - A50331003

ONE WELL NOT PUMPING, HAS POWER, CHECK ASAP
03/31/05 TRAVEL TO SITE AND CHECKED SYSTEM. CHECKED POWER
SUPPLY TO THE CONTROLS AND CHECKED CONDITION OF MOTOR AND
LEADS, UNIT SHOWS DEAD SHORT ALL THREE LEADS, NEED TO PULL.
04/01/05 TRAVEL TO SITE, TRIED SEVERAL TIMES TO GET HOIST
RETURN, JEFF TO SCRAPE ROADWAY AND DRAIN STANDING WATER.

04/02/05 TRAVEL TO SITE, MET JEFF AND HELPED CLEAR ROADWAY
TO WELL SITE, SITE UP HOIST AND PULLED PUMP OUT. CHECKED
MOTOR AND PUMP AND FOUND PUMP-END LOCKED UP AND THE MOTOR
BURNT UP, ALSO NEED TO REPLACE WELL SEAL AND AT LEAST 84'
4" OF DROP PIPE. WILL ORDER NEW PUMP AND SUPPLIES AND
RETURN AS SOON AS POSSIBLE.

04/05/04 TRAVEL TO SITE, INSTALLED GOULDS 200L30 PUMP, #6-3
SUB CABLE, REPLACED 126' OF 4" DROP PIPE, AND TRIED TO SET
THE PUMP 315'. STOPPED JUST SHORT, REMOVED ONE JOINT OF
PIPE AND SET ON WELL SEAL. STARTED PUMP, CHECKED ROTATION
AND AMPERAGE, PUMPED OFF WELL UNTIL CLEAR, AND RECONNECTED
TO SYSTEM. PUMP NOW SETTING 284' DEEP.

303' TO BOTTOM OF PUMP 324' DEEP WELL

TO BOTTOM
check out

A50331003

3.50	HR COMMERCIAL SVC-LBR-REG/2 MEN	90.00	315.00
4.00	HR COMMERCIAL SVC LBR-REG/3 MEN	120.00	480.00
4.00	HR ADDITIONAL SVC HELPER-REGULAR	20.00	80.00
1.00	TO MATERIALS	15.00	15.00
1.50	HR COMMERCIAL EQUIPMENT RATE	40.00	140.00
1.00	LS MATERIALS	5664.40	5,664.40
8.50	HR COMMERCIAL SVC LBR-REG/3 MEN	120.00	1,020.00

SEAL 184.00
11 11

PUMP

MOTOR 3632.0

PIPE - 1083.60
8.60

Finance Charges Accrue At 1 1/2% Monthly.
If this account goes to collection said party is
responsible for court cost and collection fees.

**McCALL BROTHERS, INC.**P.O. BOX 668710
CHARLOTTE NC 28266-87106700 BROOKSHIRE BLVD.
CHARLOTTE, N.C. 28216
PH. 704-399-1506
FAX 704-398-2605**INVOICE**²²⁰⁹³
NO. 2

PAGE

E 1275 STATE BOND ROAD
L CLOVER SC 29710E 1275 STATE BOND ROAD
T CLOVER SC 29710
ET
O

INVOICE DATE	INVOICE NO.	CUSTOMER NO.	PAYMENT TERMS	CUSTOMER ORDER NO.
04/07/05	22093	F01062	NET 10	

TICKET #	QTY	UNIT MEAS DESCRIPTION	UNIT PRICE	EXTENDED PRICE
A50331003	8.50	HR ADDITIONAL SVC HELPER-REGULAR	20.00	170.00
	4.00	HR COMMERCIAL EQUIPMENT RATE	40.00	160.00
		SALES TAX		340.76
Finance Charges Accrue At 1 1/4% Monthly. this account goes to collection said party is responsible for court cost and collection fees.				
GROSS			TAX	NET AMOUNT
8,884.40			340.76	9,225.16

Diamond Electric Supply Co., Inc.
214-218 S. WILLOW ST. GASTONIA, N.C. 28054

Wholesale Electric Supplies

704/867-6331

FAX
704/867-1033

NO. 241964

PAGE 1

DATE: 04/08/05

SHIP TO
01
COUNTER CASH SALES
GASTONIA, NC 28054

BILL TO
SAME
COUNTER CASH SALES
GASTONIA, NC 28054

CREDIT CARD			05 CREDIT CARD	01				
ITEM	DESCRIPTION	ORDERED	SHIP	B/O	UM	WEIGHT	LOC	
	TED13570WL GE 70AM BREAKER	1	1		0 EA	.00		
	Price: 265.00 EA							
	Ext: 265.00							

USA
(Utility)
Will Repair

MERCHANDISE	TAX	TENDERED	CASH BACK	FREIGHT	23.81
265.00	18.55	307.36	.00		TOTAL
					307.36

Document #1 612534

C=PER (100) M=PER (1000) EA=PER (EA)
CHECK/CARD #2530

TOTAL WEIGHT:

COUNTER TICKET

01/02/1992 02:08 803-831-9977

LAKE WYLIE MOBILE

PAGE 03

04/18/2005 16:32 MICALL BROTHERS -> 8038319977

NO. 745 0002

**McCALL BROTHERS, INC.**PO BOX 668710
CHARLOTTE NC 28266-87108700 BROOKSHIRE BLVD.
CHARLOTTE NC 28218
PH. 704-399-1506
FAX 704-398-2805**INVOICE**
NO. 22229

1

PCH

B
I LAKE WYLIE MOBILE HOME PARK
L 1295 STATE LINE ROAD
L CLOVER SC 29710S LAKE WYLIE MOBILE HOME PARK
I 1295 STATE LINE ROAD
T CLOVER SC 29710
ET
O

INVOICE DATE	INVOICE NO.	CUSTOMER NO.	PAYMENT TERMS	CUSTOMER ORDER NO.
04/18/05	22229	F01062	NET 10	

TICKET #	QTY	UNIT MEAS DESCRIPTION	UNIT PRICE	EXTENDED PRICE
W/O # - A50418005				
ADDITIONAL BILLING FOR 200L30 PUMP END				
REFERENCE INVOICE NO. 22093				
041805	1.00	EA 200L30 PUMP END	3482.45	3,482.45
			SALES TAX	208.95

Finance Charges Accrue At 1 1/2% Monthly.
If this account goes to collection said party is
responsible for court cost and collection fees.

GROSS	TAX	NET AMOUNT
3,482.45	208.95	3,691.40